

DUANE, MORRIS & HECKSCHER

ATTORNEYS AT LAW

240 NORTH THIRD STREET
HARRISBURG PA 17108-1003
(717) 238-8161

5050 TILGHMAN STREET
ALLENTOWN PA 18104
(215) 391-1220

3895 ADLER PLACE
BETHLEHEM PA 18017
(215) 868-9968

ONE LIBERTY PLACE
PHILADELPHIA, PA 19103-7396
(215) 979-1000

FAX
(215) 979-1020

53 DARBY ROAD
PAOLI, PA 19301
(215) 647-3555

1201 MARKET STREET
WILMINGTON DE 19801
(302) 571-5550

8000 SAGEMORE DRIVE
MARLTON, NJ 08053
(609) 988-3100

17132
RECORDATION NO. FILED 1425

DEC 18 1990 - 10 20 AM

INTERSTATE COMMERCE COMMISSION

December 14, 1990

DIRECT DIAL 979-1222

0-352A021

FEDERAL EXPRESS

Secretary
Interstate Commerce Commission
Washington, D.C. 20423

Dear Secretary:

I have enclosed two original and two copies of the document described below, to be recorded pursuant to Section 11303 of Title 49 of the U.S. Code.

This document is a Security Agreement, a primary document, dated December 14, 1990.

The names and addresses of the parties to the documents are as follows:

Debtor: *Andrew M. Muller, Jr.
RD #3, Box 290
Kutztown, Pennsylvania 19530

Secured Party: Meridian Bank
601 Penn Street
P. O. Box 1102
Reading, PA 19603

*Please note that in addition to Andrew M. Muller, Jr., the Security Agreement also names Carol J. Muller as debtor. However, Carol J. Muller has not granted a security interest in locomotives or other rolling stock governed by regulations of the Interstate Commerce Commission. Therefore, the Security Agreement should be indexed only against Andrew M. Muller, Jr.

A description of the equipment covered by the document follows:

<u>MANUFACTURER</u>	<u>TYPE</u>	<u>EQUIPMENT NUMBER</u>	<u>POWER SOURCE</u>
Baldwin Works	G-1 4-6-2 passenger engine	425	Steam
Reading Co.	T-1 4-8-4 freight engine	2102	Steam

A fee of \$15.00 is enclosed. Please return the original and any extra copies not needed by the Commission for recordation to:

Dianne A. Meyer, Esquire
Duane, Morris & Heckscher
One Liberty Place
Philadelphia, PA 19103-7396

A short summary of the document to appear in the index follows:

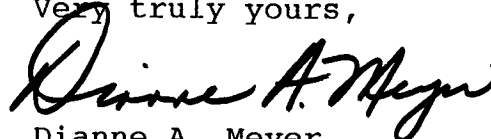
Security
Primary Document: Security Agreement between Andrew M. Muller, Jr. with an address at RD #3, Box 290, Kutztown, Pennsylvania 19530 and Meridian Bank with an address at 601 Penn Street, P. O. Box 1102, Reading, Pennsylvania 19603 dated December 14, 1990 and covering the following:

<u>MANUFACTURER</u>	<u>TYPE</u>	<u>EQUIPMENT NUMBER</u>	<u>POWER SOURCE</u>
Baldwin Works	G-1 4-6-2 passenger unique	425	Steam
Reading Co.	T-1 4-8-4 freight engine	2102	Steam

Interstate Commerce Commission
December 14, 1990
Page 3

If you have any questions on any of the above, please
call collect.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Dianne A. Meyer".

Dianne A. Meyer
for DUANE, MORRIS & HECKSCHER

Enclosures
DAM/emw/GR2

17132

COMMERCIAL NO. _____ FILED 1435

DEC 18 1990 - 10 30 AM

SECURITY AGREEMENT

INTERSTATE COMMERCE COMMISSION

This SECURITY AGREEMENT is made and entered into as of December 14, 1990, by and among ANDREW M. MULLER, JR. and CAROL ^S~~A~~. MULLER, husband and wife (the "Debtors"), and MERIDIAN BANK, a *CSM* Pennsylvania banking corporation (the "Secured Party") to secure the obligations of READING BLUE MOUNTAIN & NORTHERN RAILROAD COMPANY, a Pennsylvania corporation (the "Borrower").

BACKGROUND

A. The Borrower and the Secured Party have executed a Loan Agreement of even date herewith (the "Loan Agreement").

B. The Debtors are entering into a guaranty of even date herewith (the "Guaranty") pursuant to which the Debtors will become obligated to the Secured Party for the indebtedness and obligations of the Borrower under the Loan Agreement.

C. The Secured Party is willing to grant the extensions of credit contemplated by the Loan Agreement only on the condition that the Debtors execute and deliver this Security Agreement to the Secured Party.

D. Capitalized terms which are used herein without definition shall have the meanings ascribed to them in the Loan Agreement. Other terms used herein without definition that are defined in the Uniform Commercial Code, as enacted in

Pennsylvania and in effect on the date hereof (the "Uniform Commercial Code") shall have the meanings ascribed to them therein, unless the context requires otherwise.

NOW, THEREFORE, intending to be legally bound, the Debtors and the Secured Party hereby agree as follows:

Section 1. Creation of Security Interest

The Debtors hereby grant to the Secured Party a lien and security interest in and to the property hereinafter described, whether now owned or hereafter acquired or arising and wherever located ("Collateral"):

All tangible and intangible personal property of the Debtors (excluding, however, all Consumer Goods), including but not limited to:

(a) all accounts, accounts receivable, rights under contracts, chattel paper, instruments, and all obligations due the Debtors for goods sold or to be sold, or leased or to be leased, or services rendered or to be rendered ("Accounts");

(b) all inventory, parts or supplies or otherwise; all goods, merchandise and other property held for sale or lease or to be furnished under any contract of service; all documents of title covering any goods which are or are to become inventory and

any such goods which are leased or consigned to others
("Inventory");

(c) all leases and rental agreements for personal property between either of the Debtors as lessor (whether by origination or derivation) and any and all persons or parties as lessee(s), and all rentals, purchase option amounts, and other sums due thereunder; and all equipment, goods and property subject to such leases and rental agreements and all accessions, parts and tools attached thereto or used therewith and all of the Debtor's residual or reversionary rights therein;

(d) all machinery, equipment, locomotives and other rolling stock, including, without limitation, the locomotives and rolling stock set forth on Exhibit A hereto, tracks, ties, rails, switches, towers, furniture, fixtures, tools, motor vehicles, and all accessories, parts and equipment now or hereafter affixed thereto or used in connection therewith, and all other tangible personal property, including, without limitation the aircraft described as a Piper Navaho Chieftan, Model PA-31-350, Serial No. 31-7952219, FAA Registration N35403 ("Equipment");

(e) all general intangibles, which term shall have the meaning given to it in the Uniform Commercial Code and shall additionally include but not be limited to all tax refunds, patents, trademarks, service marks, tradenames, copyrights and other intellectual property and proprietary rights;

(f) all the property listed on any Schedule of Collateral attached to this Agreement and any other such schedule hereafter made a schedule to this Agreement;

(g) all additions, replacements, attachments, accessions and substitutions to or for any Inventory or Equipment;

(h) all property of the Debtors, including without limitation, instruments, chattel paper and documents, which at any time the Secured Party shall have or have the right to have in its possession, and, independent of and in addition to the Secured Party's rights of setoff (which the Debtors acknowledge), the balance of any account or any amount which may be owing from time to time by the Secured Party to the Debtors;

(i) all books and records evidencing or relating to the foregoing, including, without limitation, billing records of every kind and description, customer lists, data storage and processing media, software and related material, including printouts, punch cards and tab runs;

(j) all proceeds, which term shall have the meaning given to it in the Uniform Commercial Code and shall additionally include but not be limited to, whatever is received upon the use, lease, sale, exchange, collection or other utilization or any

disposition of any of the collateral described in subparagraphs (a) through (i) above, whether cash or noncash, and including without limitation, rental or lease payments, accounts, chattel paper, instruments, documents, contract rights, general intangibles, equipment, inventory and insurance proceeds; and all such proceeds of the foregoing ("Proceeds").

Section 2. Secured Obligations

The security interest created herein is given as security for the prompt payment, performance, satisfaction and discharge of the following obligations ("Obligations"):

(a) The obligations of the Borrower pay the principal, interest, commitment fees and any other liabilities of the Borrower to the Secured Party under the Loan Agreement and the other Loan Documents in accordance with the terms thereof;

(b) The satisfaction of all of the other liabilities of the Borrower to the Secured Party, whether hereunder or otherwise, whether now existing or hereafter incurred, whether or not evidenced by any Note or other instrument, matured or unmatured, direct, absolute or contingent, joint or several, including any extensions, modifications, renewals thereof and substitutions therefor;

(c) The indebtedness and obligations of each of the Debtors under the Guaranty;

(d) The repayment to the Secured Party of all amounts advanced by the Secured Party hereunder or otherwise on behalf of the Debtors, including, but without limitation, advances for principal or interest payments to prior secured parties, mortgagors or lienors, or for taxes, levies, insurance, rent, wages, repairs to or maintenance or storage of any Collateral; and

(e) The reimbursement of the Secured Party, on demand, for all of the Secured Party's expenses and costs, including the reasonable fees and expenses of its counsel, in connection with the negotiation, preparation, administration, amendment, modification, or enforcement of the Loan Agreement and the other Loan Documents.

Section 3. Representations and Warranties

Each of the Debtors as of the date hereof and at the time of each advance or extension of credit under the Loan Agreement, represents and warrants as follows:

3.01 Good Title to Collateral. Each of the Debtors has good and marketable title to the Collateral free and clear of all liens and encumbrances other than the security interests granted

to the Secured Party hereunder, under the other Loan Documents and those liens and encumbrances set forth in Exhibit B to this Security Agreement or as otherwise permitted in the Loan Documents.

3.02 Location of Books and Records. The locations where the Debtors maintain their books and records concerning the Collateral are as set forth in Exhibit C or at the location(s) hereafter disclosed to the Secured Party pursuant to Section 5.08 hereof.

3.03 Location of Inventory and Equipment. All Inventory and Equipment of the Debtors is located at one or more of the addresses set forth in Exhibit C or at the location(s) hereafter disclosed to the Secured Party pursuant to Section 5.08 hereof.

3.04 Other Representations. Each representation, warranty or other statement by the Debtors in, or in connection with, any of the Loan Documents is true and correct and states all material facts necessary to make it not misleading.

Section 4. Collection, Disposition and Use of Collateral

4.01 Inventory. So long as there has been no default hereunder, the Debtors shall be permitted to process and sell its

Inventory, but only to the extent that such processing and sale are conducted in the ordinary course of the Debtors' business.

4.02 Equipment. So long as there has been no default hereunder, the Debtors shall be permitted to use their Equipment in the ordinary course of their business. No sale, lease or other disposition of any item of equipment shall be permitted, except in accordance with such terms and conditions as set forth in the Loan Agreement or as the Secured Party shall have expressly approved in writing and except for the sale or other disposition of obsolete Equipment which is no longer used or useful in the Debtors' business.

Notwithstanding the foregoing, the Debtor may lease locomotives and other rolling stock to the Borrower and Corporate Guarantors and transfer such locomotives and rolling stock to the Borrower as a contribution to the capital of the Borrower with prior notice to the Secured Party.

Section 5. Covenants and Agreements of the Debtors.

5.01 Maintenance and Inspection of Books and Records.

The Debtors shall maintain complete and accurate books and records and shall make all necessary entries therein to reflect the costs, values and locations of its Inventory and Equipment and the transactions and documents giving rise to its Accounts. The Debtors shall keep the Secured Party fully informed as to the

location of all such books and records and shall permit the Secured Party and its authorized agents to have full, complete and unrestricted access thereto at any reasonable time and to inspect, audit and make copies of all books and records, data storage and processing media, software, printouts, journals, orders, receipts, invoices, correspondence and other documents and written or printed matter related to any of the Collateral. The Secured Party's rights hereunder shall be enforceable at law or in equity, and the Debtors consent to the entry of judicial orders or injunctions enforcing specific performance of such obligations hereunder.

5.02 Confirmation of Accounts. The Debtors agree that the Secured Party shall at all times have the right to verify any or all of the Debtors' Accounts in the Secured Party's name, or in any fictitious name used by the Secured Party for verifications, or through any public accountants.

5.03 Delivery of Accounts Documentation. At such intervals as the Secured Party shall require, the Debtors shall deliver to the Secured Party any document or instrument which evidences or gives rise to an Account.

5.04 Physical Inspection of Inventory and Equipment. The Debtors shall permit the Secured Party and its authorized agents to inspect any or all of the their Inventory and Equipment at all reasonable times upon prior reasonable notice.

5.05 Notice of the Secured Party's Interests. If requested by the Secured Party, the Debtors shall give notice of the Secured Party's security interests in the Collateral to any third person with whom the Debtors have any actual or prospective contractual relationship or other business dealings.

5.06 Delivery of Certain Accounts and Documents to the Secured Party. Immediately upon receipt of any instrument, chattel paper, document of title (including bills of lading and warehouse receipts), the Debtors shall deliver such Collateral to the Secured Party and shall execute any form of assignment requested by the Secured Party with respect thereto.

5.07 Insurance of Collateral. The Debtors shall keep their Inventory and Equipment insured against such perils, in such amounts and with such insurance companies as set forth in the Loan Agreement. The Debtors expressly authorize their insurance carriers to pay proceeds of all insurance policies covering any or all of the Collateral directly to the Secured Party, subject to the provisions of the Loan Agreement.

5.08 New Locations of Collateral and Books and Records. The Debtors shall immediately notify the Secured Party of any change in the location of its chief executive office, of any new or additional address where its books and records concerning the Collateral are located and of any new locations of Inventory or

Equipment not specified in Sections 3.02 or 3.03 of this Security Agreement, and if any such location is on leased or mortgaged premises, promptly furnish the Secured Party with landlord's or mortgagee's waivers in form and substance satisfactory to the Secured Party.

5.09 Perfection of the Secured Party's Interests. The Debtors agree to cooperate and join, at its expense, with the Secured Party in taking such steps as are necessary, in the Secured Party's judgment, to perfect or continue the perfected status of the security interests granted hereunder, including, without limitation, the execution and delivery of any financing statements, amendments thereto and continuation statements, the delivery of chattel paper, documents or instruments to the Secured Party, the obtaining of landlords' and mortgagees' waivers required by the Secured Party, the notation of encumbrances in favor of the Secured Party on certificates of title, and the execution and filing of any collateral assignments and any other instruments requested by the Secured Party to perfect its security interest in any and all of the Debtors' general intangibles. The Secured Party is expressly authorized to file financing statements without the signature of the Debtors.

5.10 Maintenance of Inventory and Equipment. The Debtors shall care for and preserve the Inventory and Equipment in good condition and repair, and will pay the cost of all

replacement parts, repairs to and maintenance of the Equipment. The Debtors will keep complete and accurate maintenance records with respect to its Equipment.

5.11 Notification of Adverse Change in Collateral. The Debtors agree immediately to notify the Secured Party if any event occurs or is discovered which would cause any material diminution in the value of any significant item or type of Collateral.

5.12 Reimbursement and Indemnification. The Debtors agree to reimburse the Secured Party on demand for out-of-pocket expenses incurred in connection with the Secured Party's exercise of its rights under this Security Agreement. The Debtors agree to indemnify the Secured Party and hold it harmless against any costs, expenses, losses, damages and liabilities (including reasonable attorney's fees) incurred in connection with this Security Agreement, other than as a direct result of the Secured Party's gross negligence or willful misconduct.

5.13 After-Acquired Collateral. Each Debtor shall give the Bank thirty (30) days prior written notice of any intended purchase or other transaction by which either Debtor shall obtain title to any type of Collateral for which filing pursuant to the Uniform Commercial Code is not the sole method of the perfection of the Secured Party's security interest, i.e. the regulations of the Interstate Commerce Commission regarding the perfection of a

security interest in locomotives and other rolling stock or the Federal Aviation Administration regarding the perfection of a security interest in aircraft.

Section 6. Power of Attorney

The Debtors hereby appoints the Secured Party as its lawful attorney-in-fact to do, at the Secured Party's option, and at the Debtors' expense and liability, all acts and things which the Secured Party may deem necessary or desirable to effectuate its rights under this Security Agreement, including without limitation, (a) file financing statements and otherwise perfect any security interest granted hereby, (b) correspond and negotiate directly with insurance carriers, and (c) upon the occurrence of default hereunder, communicate with third parties for the purpose of protecting or preserving the Collateral.

Section 7. Default

The occurrence of any one or more of the following shall be a default hereunder:

7.01 Default Under Loan Agreement. The occurrence of an Event of Default under the Loan Agreement or any of the Loan Documents.

7.02 Failure to Observe Covenants. The failure of the Debtors to keep, observe or perform any provisions of this Security Agreement, which failure is not cured and remedied within fifteen (15) days after notice thereof is given to the Debtors.

7.03 Representations, Warranties. If any representation, warranty or certificate furnished by the Debtors under or in connection with this Security Agreement shall, at any time, be materially false or incorrect.

Section 8. Secured Party's Rights Upon Default

Upon the occurrence of a default hereunder, or at any time thereafter, the Secured Party may immediately and without notice do any or all of the following, which rights and remedies are cumulative, may be exercised from time to time, and are in addition to any rights and remedies available to the Secured Party under the Loan Agreement or any other Loan Document:

8.01 Uniform Commercial Code Rights. Exercise any and all of the rights and remedies of a secured party under the Uniform Commercial Code, including the right to require the Debtors to assemble the Collateral and make it available to the Secured Party at a place reasonably convenient to the parties.

8.02 Operation of Collateral. Operate, utilize, recondition and/or refurbish (at the Secured Party's sole option and discretion and in any manner) any of the Collateral which is Equipment, for the purpose of enhancing or preserving the value thereof or the value of any other Collateral.

8.03 Notification of Account Debtors. Notify the account debtors for any of the Accounts to make payment directly to the Secured Party, or to such post office box as the Secured Party may direct.

8.04 Sale of Collateral. Upon five (5) business days' prior written notice to the Debtors, which the Debtors hereby acknowledge to be sufficient, commercially reasonable and proper, sell, lease or otherwise dispose of any or all of the Collateral at any time and from time to time at public or private sale, with or without advertisement thereof and apply the proceeds of any such sale first to the Secured Party's expenses in preparing the Collateral for sale (including reasonable attorneys' fees) and second to the complete satisfaction of the Obligations. The Debtors waive the benefit of any marshalling doctrine with respect to the Secured Party's exercise of its rights hereunder. The Debtors grant a royalty - free license to the Secured Party for all patents, service marks, trademarks, tradenames, copyrights, computer programs and other intellectual property and proprietary rights sufficient to permit Secured Party to exercise all rights granted to Secured Party under this Section.

Section 9. Notices

Every notice and communication under this Agreement shall be in writing and shall be given by either (i) hand-delivery, (ii) first class mail (postage prepaid), (iii) reliable overnight commercial courier (charges prepaid), or (iv) telecopy or other means of electronic transmission, if confirmed promptly by any of the methods specified in clauses (i), (ii) and (iii) of this sentence, to the following addresses:

If to the Debtors:

Andrew M. and Carol J. Muller
RD #3, Box 290
Kutztown, PA 19530
Fax: (215) 562-0596

With a copy to:

Rubin, Quinn, Moss, Heaney & Patterson
1800 Penn Mutual Tower
510 Walnut Street
Philadelphia, PA 19106-3619
Attn: William P. Quinn, Esquire
Fax: (215) 925-1572

If to the Secured Party:

Meridian Bank
601 Penn Street
Reading, PA 19601
Attn: Andrew H. Bowman, Assistant Banking Officer
Fax: (215) 320-1514

With a copy to:

Duane, Morris & Heckscher
One Liberty Place
Philadelphia, PA 19103-7396
Attn: Patricia L. Pregmon, Esquire
Fax: (215) 979-1020

A party may change its address by giving written notice to the other party as specified herein.

Section 10. Miscellaneous

10.01 No Waiver. No delay or omission by the Secured Party in exercising any right or remedy hereunder shall operate as a waiver thereof or of any other right or remedy, and no single or partial exercise thereof shall preclude any further exercise thereof or the exercise of any other right or remedy.

10.02 Preservation of Rights. The Secured Party shall have no obligation or responsibility to take any steps to enforce or preserve rights against any parties to any Account and such obligation and responsibility shall be those of the Debtors exclusively.

10.03 Successors. The provisions of this Security Agreement shall inure to the benefit of and be binding upon the Secured Party and the Debtors and their respective successors and assigns, provided that the Debtors' obligations hereunder may not be assigned without the written consent of the Secured Party.

10.04 Amendments. No modification, rescission, waiver, release or amendment of any provisions of this Security Agreement shall be effective unless set forth in a written agreement signed by the Debtors and an authorized officer of the Secured Party.

10.05 Governing Law. This Security Agreement shall be construed under the internal laws of the Commonwealth of Pennsylvania without reference to conflict of laws principles.

10.06 Severability. If any provision of this Security Agreement shall be held invalid or unenforceable under applicable law in any jurisdiction, such invalidity or unenforceability shall not affect the validity or enforceability of such provision in any other jurisdiction or the validity or enforceability of any other provision of this Security Agreement that can be given effect without such invalid or unenforceable provision.

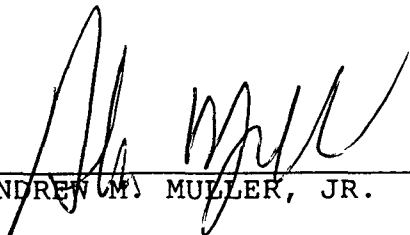
10.07 Judicial Proceedings. Each party to this Agreement agrees that any suit, action or proceeding, whether claim or counterclaim, brought or instituted by any party hereto or any successor or assign of any party, on or with respect to this Agreement or the dealings of the parties with respect hereto, shall be tried only by a court and not by a jury. EACH PARTY HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY SUCH SUIT, ACTION OR PROCEEDING. Further, each party waives any right it may have to claim or recover, in any such suit, action or proceeding, any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages. THE DEBTORS ACKNOWLEDGE AND AGREE THAT THIS PARAGRAPH IS A SPECIFIC AND MATERIAL ASPECT OF THIS AGREEMENT AND THAT THE SECURED PARTY WOULD NOT EXTEND

CREDIT TO THE BORROWER IF THE WAIVERS SET FORTH IN THIS PARAGRAPH
WERE NOT A PART OF THIS AGREEMENT.

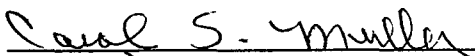
IN WITNESS WHEREOF, the parties hereto have caused this
Security Agreement to be executed and delivered by their
authorized officers the day and year first above written.

Witness:

Witness:

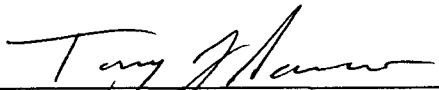


ANDREW M. MULLER, JR.

 CSM

CAROL S. MULLER

MERIDIAN BANK

By: 
Title: Vice President

DAM.GM4

COMMONWEALTH OF PENNSYLVANIA

:

: SS.

COUNTY OF PHILADELPHIA

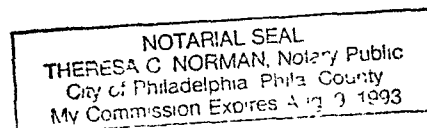
:

On the 14th day of December, 1990, before me, the subscriber, a Notary Public for the City of Philadelphia, residing in the County aforesaid, personally appeared Andrew M. Muller, Jr. and Carol G. Muller known to me (or satisfactorily proven) to be the persons whose names are subscribed to the within instrument, and acknowledged that they executed the same for the purposes therein contained.

Witness my hand and Notarial seal the day and year aforesaid.


Notary Public

My Commission Expires:



Muller

EXHIBIT C

Location of books and records:

RD #3, Box 290
Kutztown, PA
Berks County

Location of chief executive office:

RD #3, Box 290
Kutztown, PA
Berks County

Location of Inventory and Equipment:

RD #3, Box 290
Kutztown, PA
Berks County

and

Rolling stock on lines operated by
Blue Mountain & Reading Railroad Company
Berks County

EXHIBIT A

LOCOMOTIVES AND ROLLING STOCK

<u>Manufacturer</u>	<u>Type</u>	<u>Equipment Number</u>	<u>Date Purchased</u>	<u>Seller</u>	<u>Power Source</u>
Baldwin	G-1, 4-6-2	425	1984	Brian Woodcock	Steam
Reading Co.	T-1, 4-8-4	2102	1987	Rails Diversified, Inc.	Steam

Muller

EXHIBIT B

OTHER LIENS AND ENCUMBRANCES

Lease of rolling stock to Blue Mountain & Northern Railroad Company